

Flash Update: US Rate Markets – Friday 1/10/2025

- Rates surge on blowout December Employment Report – December data crushes expectations
- US labor market continues to defy expectations calling for cooler labor conditions
- Red-hot jobs report likely puts Fed rate cuts on the back burner
- Fed officials have been hawkish in recent comments; Fed’s Musalem says, “rate cuts can wait”
- Uncertainty continues to build in the market surrounding President-elect Trump’s economic and trade objectives
- Next Up for data: PPI inflation data is due at 8:30 AM on Tuesday, 1/14; CPI inflation data is released on 1/15 at 8:30 AM
- The next FOMC rate decision is due on January 29th at 2:00 PM
- Short-end SOFR swap rates are trading ~6-8 bps higher than last night’s closing levels
- Long-end swap rates are up ~2-5 bps this morning

US Treasury yields and SOFR swaps rates gapped higher this morning after a red-hot jobs report likely puts Fed rate cuts on the back-burner. Rates surged as evidence of a resilient labor market pushed traders to shift their expectations for the FOMC’s next interest-rate cut to the second half of the year (See Chart 3A). Short-end swap rates increased more than back-end rates, leading to a slightly flatter swap curve (See Chart 1).

The Fed’s focus has returned firmly to inflation following an upturn in recent months, with several officials signaling they may hold rates steady for a while after lowering borrowing costs by a full percentage point in 2024. The Fed’s Musalem said yesterday that he believes “rate cuts can wait”. The Fed’s Collins said he favors more patience and less rate cuts in 2025. Next week’s inflation data, combined with today’s jobs data, could set the tone for rate cuts for the foreseeable future. Should the inflation numbers next week continue to show “stickiness” (between 2.5% - 3.00%) the Fed will be in no hurry to lower rates anytime soon. The strong labor market and sticky inflation is more of the same of what we witnessed the second half of last year – the Fed will likely not want to risk cutting rates too quickly, thereby increasing labor market demand and spiking inflation. We will see PPI released on 1/14 at 8:30 AM. The key CPI inflation report is released on 1/15 at 8:30 AM.

CHART 1: US RATES SNAPSHOT: 10:00 AM Eastern

	UST YIELDS	SWAP SPREADS	SOFR SWAP RATES
2Y	4.329 +0.065	-15.5203 +0.3502	4.1745 +0.0701
3Y	4.404 +0.067	-23.1063 +0.1187	4.1762 +0.0700
4Y	4.484 +0.070	-27.6250	4.1868 +0.0668
5Y	4.518 +0.061	-32.1250 -0.2600	4.1981 +0.0631
7Y	4.635 +0.061	-41.8200 -0.7250	4.2175 +0.0552
10Y	4.733 +0.043	-48.8741 -0.2405	4.2448 +0.0444
20Y	5.013 +0.026	-74.1232 -0.6932	4.2736 +0.0251
30Y	4.949 +0.019	-84.5000 -0.5000	4.1050 +0.0170

Source: Bloomberg, LLP | 10:00 AM NY Rates Snapshot

CHART 2 & 2A: DECEMBER EMPLOYMENT REPORT RECAP – Blowout Jobs Report Puts Fed On Back Burner

The US economy in December added the most jobs since March and the unemployment rate unexpectedly fell, capping a surprisingly strong year for the labor market and supporting the case for a pause in Federal Reserve interest-rate cuts. Nonfarm payrolls increased 256,000, significantly exceeding expectations calling for 165,000. The unemployment rate fell to 4.1% (from 4.2%), while average hourly earnings rose 0.3% from November. This morning’s report confirms the labor market remained resilient last year despite high borrowing costs, lingering inflation and political uncertainty. Yes, demand for workers moderated and the unemployment rate ticked higher in 2024, but the job market was close to

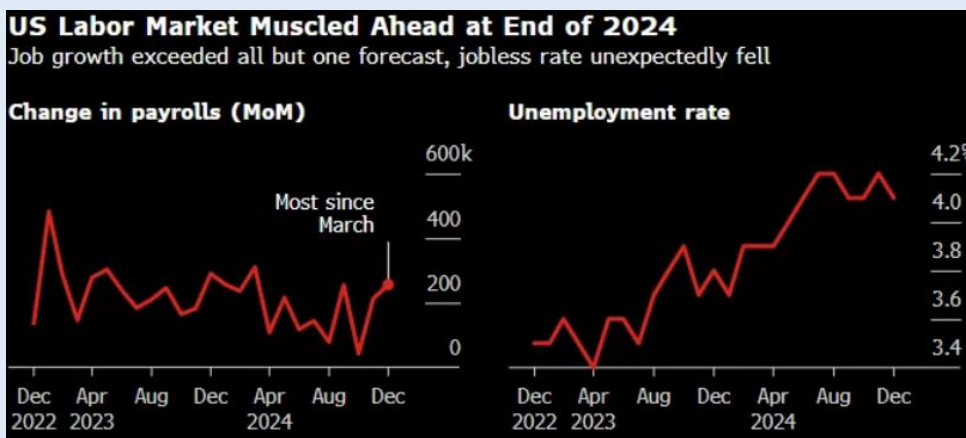
over-heated – the current data still points to a strong US jobs market. There is still a general feeling that the labor market *has* to slow down at some point – after all, we are only just beginning the new year. It also remains to be seen how President-elect Donald Trump’s economic agenda, particularly plans for mass deportations and punitive tariffs on imported goods, will impact the labor market in 2025.

CHART 2: December Employment Report Recap – Jobs Report Crushes Expectations

Metric	Actual	Median estimate
Change in payrolls (MoM)	+256k	+165k
Unemployment rate	4.1%	4.2%
Average hourly earnings (MoM)	+0.3%	+0.3%

Source: Bloomberg, LLP | DECEMBER JOBS REPORT RECAP

CHART 2A: US Labor Market Shows No Signs Of A Material Slowdown



Source: Bloomberg, LLP | HISTORICAL EMPLOYMENT DATA

CHART 3: SOFR SWAP MARKET REACTION TO JOBS REPORT – RATES MOVE HIGHER

SOFR swap rates surged this morning after the strong Employment Report forced traders to once again reprice rate cut expectations. Rates immediately gapped higher after the data was released. Currently, Fed-sensitive 1Y, 2Y and 3Y SOFR swap rates are trading ~6-8 bps higher than last night’s closing levels. Short-end swap rates were ~12 bps higher at one point, but settled-down somewhat as the morning progressed. Still, it underscores the market’s fear and uncertainty and a willingness to push rates higher if need be.

From my perspective, the whole 2025 rate narrative seems to be evolving in a different direction than the market had anticipated. Instead of a series of rate cuts to combat a cooling labor market and slowing economy, we are now looking at a Fed that may be on hold indefinitely, due to a resilient (or perhaps even, strong?) economy, consumer and labor market. Sprinkle in sticky inflation data and an incoming president whose new policies may fan inflation – well, you can see how the narrative on the rate markets for this year has shifted.

As of this morning, traders do not expect the next rate cut until the October FOMC meeting – that is a dramatic shift from even a few weeks ago. Swaps traders are pricing in ~28 basis points of *total* Fed cuts this year, compared to ~39 basis points before the jobs data release. Needless to say, it is too early to draw any firm conclusions on the path forward for rates and the FOMC this year. Next week’s inflation data will provide another round of *critical* data for the market to digest.

CHART 3: 1Y (white), 2Y (blue) & 3Y (orange) SOFR Swap Rates – Prior (3) Trading Sessions



Source: Bloomberg, LLP | 1Y, 2Y & 3Y SOFR SWAP RATES – PRIOR (3) TRADING SESSIONS

CHART 3A: Next Rate Cut Not Expected Until October 2025



Source: Bloomberg, LLP | MARKET CUMULATIVE RATE CUT PRICING FOR 2025 (AS OF 1/10/25)

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